

Trend of Business

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ECONOMIC conditions have undergone further improvement during 1937. Progress since the first of the year has, however, been less rapid than during 1936, and some important economic series have not moved above the level reached last December, after allowance for normal seasonal fluctuations. Activity has been maintained throughout the first 8 months of this year around the high point of the recovery period, the recession during the summer being of seasonal proportions. A narrowing of the rate of increase over a year ago has been evident during recent months, as the cyclical upswing received an added impetus in the middle of 1936 from the Government funds distributed to World War veterans in settlement of their adjusted compensation certificates. Nevertheless, preliminary data for August indicate that the margin of gain over August of 1936 was still substantial. The chart on page 4, providing a comparison of six important indicators of economic change for the first 7 months of the years 1929 to 1937, inclusive, reveals the extent of the gains for the current year.

The available data indicate an increase of between 10 and 15 percent in the national income distributed during the first 8 months of the year in comparison with the corresponding period of last year. This indicates a further increase in real income, since the rise in living costs, resulting from higher commodity prices and the improvement in the rental situation, has been less than the increase in aggregate income.

The expansion in the national income distributed has reflected the sharp gain in labor payments, the further rise in income derived from agriculture and other business enterprises, and the rapid increase in dividend payments. The further rise in purchasing power is of major significance with reference to both the current and the prospective volume of business. While the increase in factory pay rolls this year has been outstanding (see the accompanying table), it may be noted that total labor income has been estimated at nearly 15 percent higher than last year. Dividend payments, according to Moody's index, which is indicative of the general trend, have increased by more than one-third.

Not only labor and property incomes have been rising; the income of the farmer also has continued to increase. The outlook for the fall harvest is good, according to the Department of Agriculture, with present prospects indicating a yield above average for the principal crops and much above last year's drought-reduced yields. In view of the carry-over situation and the demand factors, the Department of Agriculture does not regard the prospective yield as excessive, although the current prospects have been

reflected in some price declines. The unusually high yield from the acreage planted in cotton has tended to depress the price of this commodity substantially. The rise in cash farm income from the depression low is shown in figure 1.

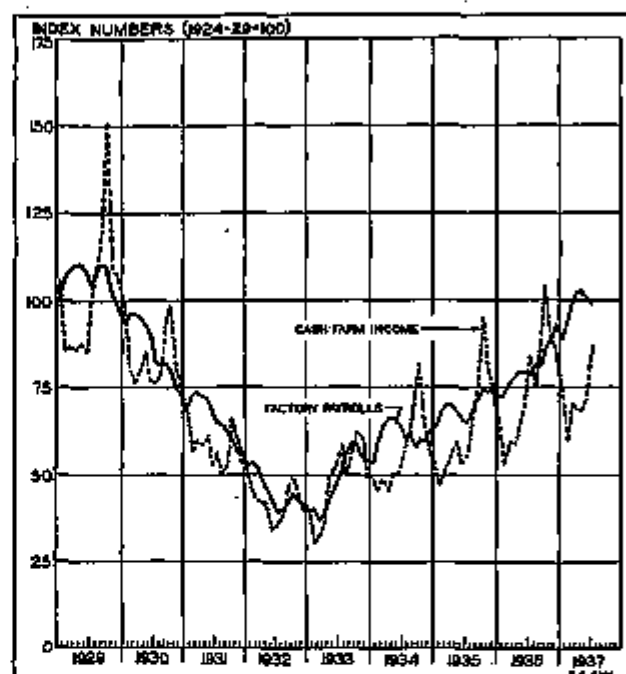


Figure 1.—Cash Income from Marketings of Farm Products, and Factory Pay Rolls. (U. S. Departments of Agriculture and Labor; the index of Factory Pay Rolls has been shifted to the 1924-29 base.)

The Department of Agriculture estimates, on the basis of current prospects as to sales and prices, that cash farm income from marketings and Government payments for the year 1937 will be \$9,000,000,000, compared with \$7,865,000,000 in 1936, an increase of 14 percent. This would represent the largest total since 1929, when the income was \$10,479,000,000. In terms of purchasing power, the comparative showing with respect to 1929 is much better because of the lower level of prices of goods which farmers purchase. The Department of Agriculture's index of prices paid by farmers, for example, for the first 7 months of this year was 9 percent below the average for the year 1929. The income will also be more evenly distributed this year than in any other recent period.

Trend of Industrial Output.

Because of the ramifications of the manufacturing industry, the production of manufactured goods provides a guide to the trend of general conditions. The Federal Reserve index of the output of manufactures reveals a rather steady advance from the middle of 1935 to the end of 1936. During the current year the

index has moved approximately sideways but close to the high point of the recovery. Principal influences in the minor fluctuations in the index during this period included the industrial disputes (which tended to retard output for a time, notably in the steel and automobile industries) and the devastating floods in the first quarter. The evenness of the basic movement, however, is evident when a comparison is made of the quarterly average of the Federal Reserve index of manufacturing production. For the final quarter of 1936 and the first half of 1937 the quarterly figure stood at approximately 116 (1923-25=100). The index has deviated only slightly from that average for the first 2 months of the current quarter. For the first 8 months of 1937, aggregate output of manufactures was about 15 percent larger than in the corresponding period of 1936.

It is apparent from figure 2 that a major impetus to the forward movement in factory output during the

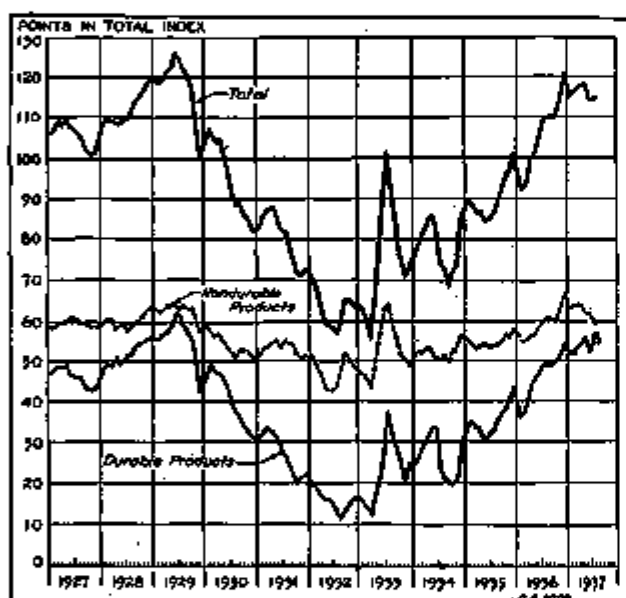


Figure 2.—Index of Manufacturing Production, Durable Products, and Non-durable Products, Expressed in Terms of Points in the Total Index. (Board of Governors of the Federal Reserve System.)

NOTE.—Data are based on daily average physical volume and are adjusted for seasonal variations. The sum of the two components equals the total index, for which the 1923-25 average is taken as 100. Durable goods include iron and steel, automobiles, lumber, shipbuilding, locomotives, nonferrous metals, cement, polished plate glass, and wire; non-durable goods include textiles, leather and products, foods, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes.

past 2 years was derived from the demand for durable goods and that expansion in this direction still persists. As production and distribution have expanded to a point where additional equipment is needed and as renewed confidence has fostered commitments by individuals for housing and other durable products, the output of this type of commodity has experienced a rapid rise, with beneficial effects on purchasing power and on the demand for consumer goods. This development has tended to bring about a better balanced output and is only one evidence of the progress toward the reattainment of balanced economic relationships.

The shifting demand in the industries producing durable goods is indicated by the trend of steel output. Not until the latter part of 1935 were orders for finished steel sufficient to warrant a rate of operations over an extended period which utilized half of the ingot capacity of the industry. From the midsummer of 1935, however, output increased from about 40 percent of capacity to more than 90 percent in May 1937, when strikes were instrumental in curtailing output. By August, production was again above 80 percent of capacity. Actual output of steel in the first 7 months of 1937 (33,321,000 tons) was within 2 percent of the production in the comparable period of 1929.

Among the steel-consuming industries, marked expansion has occurred this year in the machinery, agri-

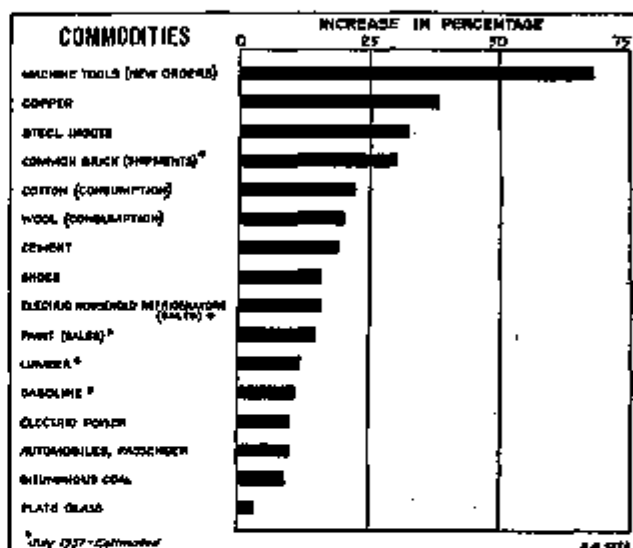


Figure 3.—Increases in Production of Selected Commodities, First 7 Months of 1937 Compared With Corresponding Period of 1936.

NOTE.—For those commodities for which a measure other than production is used, it is so indicated.

cultural implement, railway equipment, and electrical equipment industries. The increase in the steel needs of the automobile and tin-plate industries was less marked. Production (factory sales) of automobiles reached 3,227,683 units in the first 7 months, an increase of 10 percent over a year ago and a record which has been exceeded only in 1929. Increased activity in the building industry has resulted in a marked expansion in sales of all types of building materials and building equipment. The volume of new construction, however, still remains distinctly subnormal (see table, p. 17.)

Certain of the consumer-goods industries have operated at an exceptionally high rate this year. Some products—rayon, gasoline, glass containers, boots and shoes, cigarettes, cotton textiles, hosiery, and various lines of electrical equipment, among others—have established new production peaks during the current year. In some of these lines, notably textiles, production has tended downward in recent months. Figure 3 affords a comparison of the increase in the production of certain

selected commodities during the first 7 months of the current year with the results of the corresponding period of 1936.

Labor Situation.

The rise in labor income has been occasioned by the increase in the number of persons employed, the continued upward movement of wage rates, and some increase in the average hours worked per employee. The Bureau of Labor Statistics reports that the increase in the number at work in July in the industries surveyed monthly, as compared with the corresponding period a year ago, was nearly 1,300,000. Figure 4 shows the relative increase in pay rolls in the principal manufacturing and nonmanufacturing industries this year as compared with 1936.

The important place which industrial disputes have occupied in the business news during the current year lends interest to figure 5 showing the number of man-days lost in strikes since 1929. As recovery has progressed, the loss of time because of this factor has in-

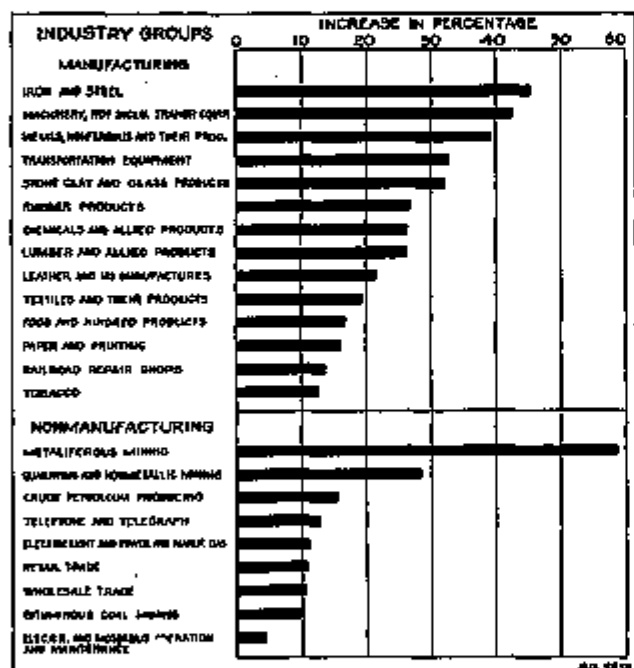


Figure 4.—Increase in Pay Rolls in Manufacturing and Nonmanufacturing Industries, First 7 Months of 1937 Compared with Corresponding Period of 1936. (Basic data from the U. S. Department of Labor.)

creased; more time has been lost so far in 1937 than in all of 1936. The June peak for the current year reflects the heavy loss of time in the steel industry; the January and April peaks were caused by the strikes in the automobile industry.

While these labor disputes have been important, particularly in the lines directly affected, it is possible to overemphasize their effects to date in terms of the total flow of purchasing power and in terms of their influence on general business activity. It is impossible to determine the net effect of such stoppages either with regard to the industries or the individuals affected, but certainly not all of the time lost can be computed as net loss with relation to either production or pur-

chasing power, since there is the possibility of shifting purchases and production from one group or area to another and temporary stoppages may result only in clearing inventories.

The man-days lost should properly be interpreted with regard to the aggregate man-days of all workers, and on this basis they do not seem so imposing. The number at work in nonagricultural employment this year, according to the Bureau of Labor Statistics esti-

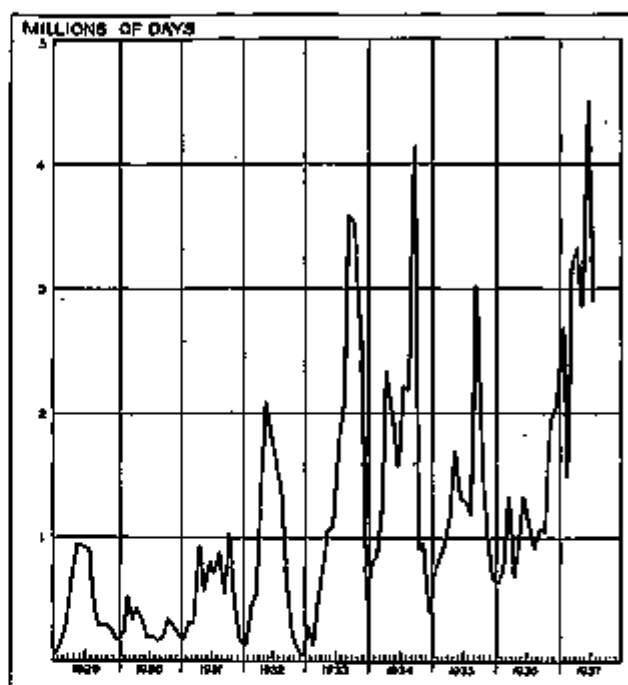


Figure 5.—Man-Days Lost as a Result of Strikes. (U. S. Department of Labor.)

mates, has averaged about 34,000,000. The average monthly number of workers involved in strikes during the first 7 months of the year was 318,000, or less than 1 percent of the foregoing total. Furthermore, workers lost, on an average, 9½ days, or little more than one-third of a month each.

As a result of the reemployment gains and the general improvement in economic conditions, the number of relief cases has declined, continuing the trend established some time earlier. From a peak of 5,318,000 cases in January 1935, the number dropped to 3,640,000 in December 1936, and declined further to approximately 3,200,000 in June 1937. These figures represent the unduplicated number of cases (families and single persons) from relief rolls employed on the Federal Works Program, together with those receiving relief under the general relief program of the States and localities. Not included are persons benefiting from the public-assistance program of the Social Security Board or from special programs such as those for student aid, rural rehabilitation, Civilian Conservation Corps camps, National Youth Administration works projects, and transient assistance.

The number of persons employed on projects of the Works Progress Administration declined to 1,527,000

by the week ended August 14, from a peak in excess of 3,000,000 in the first quarter of 1936. The reduction since the last week in December has been about 655,000.

While the relief and employment data indicate a substantial improvement in the unemployment situation, the number without private employment is still large. The major fields in which employment is still considerably less than in 1929 are construction, mining, and transportation. The other industries and service occupations have not absorbed the employees released from these groups and those that may have been displaced by young men and women entering the labor field. The increase in the number of employables since 1929, although not known, is a figure of considerable size.

Domestic and Foreign Trade.

The improvement in domestic distribution this year has been accompanied by the rise in exports, notwithstanding the many influences which continue to restrict the flow of international trade. Armament programs have tended to increase trade in certain articles, but it is not possible to measure the influence of this as distinguished from other factors. The increase of about one-third in the value of our exports during the first half of the year over the first half of 1936 was the result of an increase of nearly one-fourth in the quantity of goods shipped abroad and of an 8-percent advance in the average price of our export goods. The increase in exports for this period was relatively larger than the advances in domestic distribution series.

This situation has not prevailed for the earlier recovery period, and our export trade is smaller relative to predepression standards than is domestic trade. On a volume basis, exports for the first half of the year were more than one-fourth below the 1929 figure; exports of both crude and manufactured foodstuffs made a particularly poor showing. Imports, on the contrary, have been larger in volume this year than in 1929, partly because of unusually large imports of agricultural commodities as a result of the short harvests of recent years.

The fluctuation in several of the major retail-trade indexes since 1929 is shown in figure 6. Sales of new passenger automobiles and rural sales of general merchandise during this period have fluctuated more widely than have department-store sales. The latter are more indicative of the general sales movement. Department-store sales in 1936 and 1937 show about the same relative decline from the 1929 level as do the estimates of total sales; but at the low point in 1933, department-store sales were 40 percent below those for 1929, while all sales were off about one-half. The increase in aggregate sales so far this year has probably not exceeded 10 percent, the rate of gain having gradually decreased in recent months.

Freight traffic for the first 8 months of the year was about 12 percent higher than in the corresponding period of 1936; but in recent weeks the rate of gain has been reduced to about 6 percent. Although the financial position of the carriers has improved, advancing costs of materials and the recent wage rate increases have caused their operating expenses to rise rapidly. No decision has as yet been announced by the Interstate Commerce Commission on the petition of the carriers for an increase in freight rates.

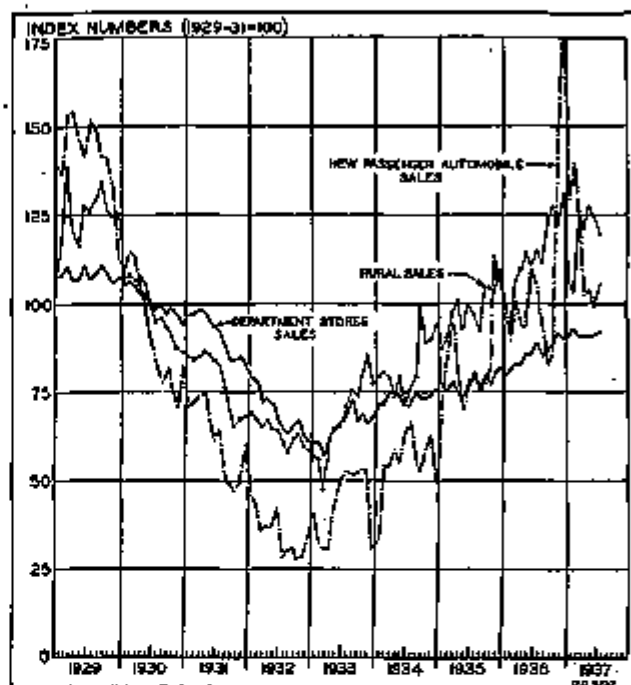


Figure 6.—Selected Indexes of Retail Sales, Adjusted for Seasonal Variations (Bureau of Foreign and Domestic Commerce, except for department-store sales which is the index of the Board of Governors of the Federal Reserve System shifted to a 1929=31 base).

Price Changes.

The year opened with "sensitive" commodity prices rising rapidly in continuation of the upward movement which was initiated in the final quarter of 1936. This rise, which extended through the first quarter of the current year and which was accompanied by a gradual advance in prices of finished goods, engendered a considerable volume of speculative and forward purchasing and resulted in some increase in inventories in the hands of both manufacturers and retailers. With the break in the commodity markets early in April, purchasing agents became more cautious. The inventory situation has not been such as to cause a slackening in industry, although in such important industries as steel and textiles, recent production has been in excess of incoming business, and unfilled orders have been materially reduced. The extent of the price readjustment since March has not been sufficient to cause important inventory losses, particularly since prices of manufactured products have continued to advance into the summer. The Bureau of Labor Statistics index of finished products in mid-August stood at 88.9 (1926=

100), approximately 2 points above the figure for the week ended April 3, when the more sensitive commodity prices reached their peak.

Rising prices and costs of production have created numerous problems. In the construction industry, sharply advancing costs have undoubtedly exercised a retarding influence on certain types of construction. Residential building has proceeded at a much higher rate than that of a year ago, but since May the value of the permits issued for family dwellings in cities having a population of 10,000 or more, as reported by the Bureau of Labor Statistics, has been less than that reported for the corresponding time last year. Data gathered by the Federal Home Loan Bank Board indicate that the rise in the cost of single dwellings has been very considerable, although there are certain possibilities of cost adjustment in such construction by varying the size and/or equipment of the dwelling. For example, the average cost of the single-family dwelling for which permits were granted in June, in all cities of 10,000 population or more, only slightly exceeded that in June 1936. Obviously, if the cost figures are stated on the same basis for both months, the average unit is somewhat different from that started a year ago.

Financial Tendencies.

Financial conditions have remained easy, with interest rates low and capital abundant. On May 1, the last of a series of increases in member-bank reserve requirements went into effect and reduced excess reserves below a billion dollars for the first time since early in 1934; at their peak in December, 1935, excess reserves were about \$3,300,000,000.

The member-bank reports for the current year reveal the following significant tendencies: (1) a moderate decline in the volume of deposits; (2) a decline in the volume of Government securities held; and (3) a continued expansion in the volume of commercial loans. The drop in deposits followed 4 years of rapid rise and has coincided with a decline in the volume of Government securities held by the banks. Gold flowed into the country in large volume throughout the first half of the year, but more recently there has been a decline in imports from Europe, the principal source of shipments. Imports of gold from Japan have been large in recent months.

Stock prices reached a peak for the recovery period in March and subsequently declined. Prices were lower at the end of August than at the end of 1936. Industrial shares, according to the Standard Statistics index, had recovered to the year-end level, but rails and utilities were lower. Profits of industrial and other corporations have continued to increase, although the rate of gain is declining and not all industries have been able to improve upon the 1936 results.

Figure 7 illustrates the extent of recovery in profits in the three major groups. The declines for the railroad and industrial corporations from 1929 to 1932

were closely parallel, but the recovery record has been quite different. Profits of the railroads are still relatively small. Among the industrials the largest relative increases for the first half of 1937, on the basis of preliminary data, were reported for the iron and steel, aircraft, railroad equipment, building, machinery, metals, petroleum, and electrical equipment industries. It will be noted that companies in most of these lines are benefiting from the revival in the durable-goods industries.

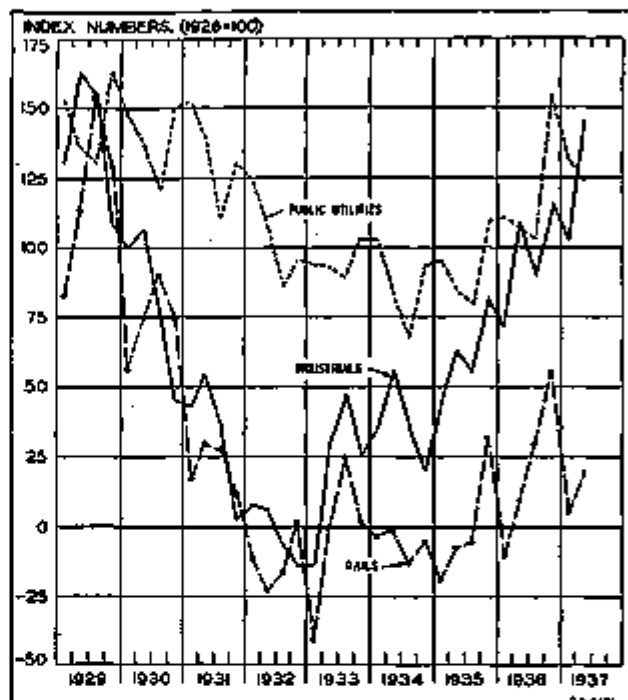


Figure 7.—Quarterly Earnings of 120 Industrial, 26 Railroad, and 15 Utility Corporations. (Standard Statistics Co., Inc.)

Expanding profits have meant a larger dividend flow this year, particularly from industrial concerns. The average dividend rate per share of 492 industrial concerns, as reported by Moody's, advanced from \$1.26 in December 1935 to \$2.01 in December 1936 and by July 1937 had risen to \$2.12. The rate for 36 rail shares, which had moved up from \$1.21 to \$1.77 in 1936, has been unchanged at that figure through July. The 30 public utility concerns included in the tabulation showed only a moderate rise in 1936, and practically no change so far this year. The rate on the industrial and public utility shares has recovered to within about 80 percent of the average for the last 7 months of 1929, but the railroad rate is less than a third of the 1929 figure. The basic reason for this difference is evident from figure 7.

While bond prices have declined from the peak reached last December, the readjustment of yields has been slight when compared with the rise of the 4 preceding years. The yield on Treasury bonds increased from 2.27 percent in December 1936 to 2.74 percent in April and subsequently receded slightly but has

fluctuated around the average for the years 1935 and 1936. The Standard Statistics Co.'s computed yield on 45 corporate issues rose from $4\frac{1}{4}$ percent to around $4\frac{1}{2}$ percent, the latter figure being less than the average yield on the bonds in 1935.

The decline in listed security prices hampered the flotation of new issues. Difficulties were experienced as early as January in the marketing of new securities, and the volume of flotations declined through May.

In June there was an increase, as several large issues were offered, and the July total was above the average for the first 6 months, but in August the volume was relatively small. The volume of corporate refunding during the first 8 months was much less than that in the corresponding period of 1936, but the amount of new capital raised was larger. The latter amount was still low in relation to the predepression average.

Selected Business Series, Comparative Data for the First 7 Months of 1929, 1932, 1936, and 1937 with Percentage Changes

Item	Unit or base period	First 7 months of—				Percentage change 1937 from—		
		1929	1932	1936	1937	1929	1932	1936
Industrial production, combined index	1923-24=100	122	64	101	117	-1.1	+51.5	+15.8
Production series:								
Automobiles	Thousands of units	3,729	660	2,020	2,225	-13.1	+278.4	+10.3
Bituminous coal	Thousands of tons	207,228	181,502	252,830	254,721	-15.2	+64.2	+9.0
Cotton consumption	Thousands of bales	4,312	2,075	3,027	4,775	+10.7	+78.5	+21.0
Electric power	Millions of kw.-hr.	66,472	95,403	63,877	50,893	+28.0	+44.2	+12.9
Lumber ¹	Millions of feet b. m.	5,612	5,612	10,010	12,281		+122.5	+12.0
Petroleum, crude	Thousands of barrels	570,600	465,550	627,980	727,184	+25.5	+54.2	+15.2
Pig iron	Thousands of tons	35,428	5,741	30,122	23,705	-8.7	+504.2	+43.9
Steel ingots	do	33,587	5,891	25,100	23,321	-1.7	+291.5	+32.3
Wool consumption	Thousands of pounds	215,300	167,100	210,005	265,066	+10.5	+135.3	+19.0
Distribution:								
Car loadings	Thousands of units	20,777	10,041	20,167	22,740	-23.0	+41.8	+12.5
Retail sales:								
Passenger automobiles	1929-31=100	105.7	42.1	112.0	123.7	-26.3	+187.0	+0.6
Department stores	1923-25=100	108.0	62.0	75.0	82.0	-10.3	+20.3	+0.3
Rural	1920-31=100	105.5	58.8	84.7	100.4	-3.1	+81.0	+11.2
Cash income from farm marketings	1924-26=100	90.9	41.8	64.9	71.0	-21.2	+71.3	+10.5
Employment and pay rolls:								
Employment:								
Nonagricultural (estimated total) ¹	Thousands of workers	26,276	27,069	32,701	34,722	-4.3	+20.4	+4.6
Factory	1923-25=100	101.2	50.2	83.8	100.0	-3.0	+51.8	+13.2
Pay rolls:								
Factory	1923-25=100	109.0	48.8	79.1	108.3	-8.5	+102.5	+29.4
Construction:								
Contracts awarded, total	Millions of dollars	1,694	700	1,332	1,315	-50.4	+128.1	+18.6
Residential	do	1,287	182	407	598	-82.5	+229.0	+48.0
Nonresidential	do	1,430	512	580	703	-51.0	+125.3	+29.9
Public works and utilities	do	942	301	680	615	-46.3	+71.1	-4.6
Foreign trade:								
Exports:								
Quantity	1923-25=100	132	70	78	95	-28.0	+35.7	+21.8
Value	1924-25=100	110	37	51	48	-41.4	+83.8	+33.3
Imports:								
Quantity	1923-25=100	134	85	114	141	+0.3	+65.0	+23.7
Value	1923-25=100	118	30	60	80	-28.0	+117.0	+41.7
Finance:								
Corporation profits ¹	1926=100	136.7	18.8	75.1	102.9	-24.7	+117.3	+37.0
Securities issued, total	Thousands of dollars	7,261,780	1,057,187	2,976,017	2,977,914	-60.0	+181.7	-23.1
New capital	do	6,321,473	771,698	908,091	1,312,322	-76.1	+183.0	+50.4
Refunding	do	940,303	285,488	3,067,926	1,665,592	+105.9	+113.8	-51.3
Bond prices (46 corporate issues)	Dollars	91.9	74.1	103.3	102.8	+9.4	+38.7	-4.4
Stock prices (419 issues)	1926=100	100.5	40.7	105.7	122.5	-35.7	+162.3	+15.9
Prices:								
Wholesale prices ¹	1926=100	90.5	64.5	80.5	87.0	-8.9	+38.3	+0.2
Cost of living of wage-earners ¹	1923=100	100.3	77.5	85.2	82.9	-11.4	+14.7	+4.5

¹ Data are for first 6 months of each year.

² May of each year.

³ July of each year.

⁴ Preliminary.